

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

DOT-00 INR-11 NSAE-00 RSC-01 FAA-00 SS-20 NSC-07 L-03

TRSE-00 AID-20 OMB-01 FRB-03 XMB-07 IO-14 DRC-01 /119 W

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R 021113Z AUG 74

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 5323

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DEPT PASS CIVIL AERONAUTICS BOARD

E.O. 11652: N/A

TAGS: ETRN, NI

SUBJECT: CIVAIR: FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES

REFS: A) STATE 79306; B) LAGOS 4191; C) STATE 162608

1. FURTHER INFORMATION IS SUPPLIED BELOW TO SUPPLEMENT REF. B ON GOVERNMENT SUBSIDIES TO NIGERIA AIRWAYS. PARAGRAPHS ARE KEYED TO SPECIFIC QUESTIONS RAISED IN REF. C:

A. FEDERAL GOVERNMENT SUPPLIES 100 PERCENT OF NIGERIA AIRWAYS' EQUITY CAPITAL. ACCORDING TO LATEST AVAILABLE AUDITED BALANCE SHEET (AS OF 31ST MARCH, 1967), THIS AMOUNTS TO APPROX. \$4.6 MILLION IN FULLY-PAID SHARES. IN VIEW OF NIGERIA AIRWAYS' RECORD OF ANNUAL OPERATING LOSSES SINCE 1962-63, IT IS CERTAIN THAT FEDERAL GOVERNMENT HAS NO REALISTIC EXPECTATION OF ADEQUATE RETURN FOR ITS INVESTMENT, AT LEAST FOR FORESEEABLE FUTURE.

B. AS OF MARCH 31ST, 1967, LOANS AND ADVANCES BY FEDERAL GOVERNMENT TO NIGERIA AIRWAYS TOTALLED APPROX. \$4.3 MILLION. FOR THE PERIOD 1970-73, ADDITIONAL LOANS TOTALLING \$8.5 MILLION WERE MADE, AND A FURTHER \$8.3 MILLION LOAN IS PROJECTED FOR 1974-75. AS STATED IN REF. B, THERE IS NO EVIDENCE OF ANY REPAYMENT OF

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PRINCIPAL, MUCH LESS INTEREST; AND ACCORDING TO VARIOUS

KNOWLEDGEABLE SOURCES, THERE IS NO INTENTION ON PART OF FEDERAL GOVERNMENT TO EXACT REPAYMENT OF THESE "LOANS", IF AT ALL, UNTIL SUCH TIME AS NIGERIA AIRWAYS BECOMES PROFIT-MAKING. IN MEANTIME, THESE AMOUNTS MAY BE REGARDED AS STRAIGHT GRANT SUBSIDIES TO HELP COVER AIRWAYS' CHRONIC OPERATING LOSSES AND CAPITAL EXPENSES.

C. AVAILABLE INFORMATION ON GOVERNMENT LOAN GUARANTEES FOR NIGERIA AIRWAYS IS SUMMARIZED IN PARA. 5 OF REF. B.

D. NATIONAL TOURIST OFFICE HAS DONE VERY LITTLE ADVERTISING TO PROMOTE NATIONAL CARRIER AND FAVORABLE IMPACT ON NIGERIA AIRWAYS HAS BEEN MINIMAL.

E. LIKEWISE, VERY LITTLE HAS BEEN DONE IN WAY OF TOURIST GIVE-AWAY PACKAGES AND EFFECT IN FAVOR OF AIRWAYS CAN BE REGARDED AS NEGLIGIBLE.

F. EMBASSY'S INFORMATION IS THAT THE FEDERAL MINISTRY OF COMMUNICATIONS DOES PAY THE UPU RATE FOR CARRIAGE OF INTERNATIONAL MAIL; AND ALTHOUGH PAYMENT IS MADE TO ALL AIRLINES WITHOUT RATE DISCRIMINATION, A MEASURE OF SUBSIDY EXISTS IN THAT NIGERIA AIRWAYS IS GIVEN FIRST PREFERENCE FOR MAIL RUNS OVER COMPETING AIRLINES. ACCORDING TO LOCAL PAN REP, PREFERENCE OFTEN GIVEN TO NIGERIA AIRWAYS LAGOS-LONDON ROUTE EVEN TO SUCH DESTINATIONS AS TOKYO OR NEW YORK, WHERE USE OF COMPETING AIRLINE WOULD BE QUICKER.

G. EMBASSY IS UNAWARE THAT PAYMENT OF ARTIFICIALLY HIGH RATES IS OFFERED FOR MILITARY CARGO, NOR THAT NIGERIA AIRWAYS BENEFITS FROM FIRST PRIORITY PREFERENCE.

H. EMBASSY UNABLE TO DOCUMENT WHETHER NIGERIA AIRWAYS REIMBURSES OTHER GOVERNMENT AGENCIES FOR CUSTOMS, IMMIGRATION, AND SECURITY SERVICES. IN VIEW OF FACT THAT AIRWAYS SURVIVES ON GOVERNMENT SUBSIDIES IN ANY CASE, WE DOUBT THAT SUCH REIMBURSEMENT IS MADE. IN CASE OF LANDING FEES, WHICH COVER AIR TRAFFIC CONTROL COSTS, NIGERIA AIRWAYS IS KNOWN TO BE EXEMPT. ON THE OTHER HAND, NIGERIA AIRWAYS BENEFITS FROM ARRANGEMENT WHEREBY IT IS REIMBURSED BY FOREIGN CARRIERS FOR HANDLING CHARGES AT KANO AND IKEJA AIRPORTS. THIS COVERS SUCH SERVICES AS CUSTOMS, LIMITED OFFICIAL USE

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IMMIGRATION, AIRPORT SECURITY, PASSENGER CHECK-IN, AND BAGGAGE HANDLING. IN REALITY THESE SERVICES ARE LARGELY PERFORMED EITHER BY OTHER GOVERNMENT AGENCIES OR BY FOREIGN CARRIERS, WHICH DO NOT WISH TO ENTRUST NIGERIA AIRWAYS WITH THE WORK. PANAM REP CLAIMS THAT ONLY REAL SERVICE PROVIDED BY NIGERIA AIRWAYS ITSELF IS USE OF BUS TO TAKE PASSENGERS TO AND FROM PLANES, AND UNSKILLED BAGGAGE HANDLERS. FOR THIS PANAM REIMBURSES NIGERIA AIRWAYS AN AVERAGE OF \$10,000 PER MONTH. SUSPECT THAT ABOVE SUM, TOGETHER

WITH PAYMENTS MADE BY OTHER FOREIGN AIRLINES, CONSTITUTE
SUBSTANTIAL NET INCOME FOR NIGERIA AIRWAYS.

I. NIGERIAN GOVERNMENT MAINTAINS CIVIL AVIATION TRAINING CENTER
AT ZARIA WHICH TRAINS PILOTS, COMMUNICATORS, AND MAINTENANCE
TECHNICIANS FOR NIGERIA AIRWAYS. THOUGH REIMBURSEMENT
IS MADE BY AIRWAYS, IT ALMOST CERTAINLY DOES NOT COVER TRUE
COSTS. CENTER IS SUBSIDIZED BY UNDP GRANT (\$826,000 DISBURSED IN
1972 AND 73) AND FEDERAL MINISTRY OF TRANSPORT.

J. DOMESTIC TRANSPORT SERVICES OF NIGERIA AIRWAYS INDIRECTLY
SUBSIDIZED IN THAT AIRWAYS HAS MONOPOLY ON DOMESTIC ROUTES.
HOWEVER, EVIDENCE WOULD SUGGEST THAT FOR REASONS OF INEFFICIENCY
AIRWAYS' DOMESTIC AS WELL AS INTERNATIONAL OPERATIONS ARE IN
DEFICIT; SO BENEFITS OF DOMESTIC MONOPOLY PRESUMABLY DO NOT SPILL
OVER INTO INTERNATIONAL SERVICES.

K. NOT APPLICABLE.

2. ANOTHER AREA IN WHICH NIGERIA AIRWAYS RECEIVES INDIRECT
SUBSIDY IS PECULIAR ARRANGEMENT WHEREBY IT HAS EFFECTIVE VETO
POWER OVER PROPOSALS BY INTERNATIONAL COMPETITORS FOR ADDITIONAL
FREQUENCIES THROUGH NIGERIA. THUS, FOR EXAMPLE, AIRWAYS ARE IN
POSITION TO VETO FOURTH FREQUENCY FOR PANAM, THEREBY TO SOME
EXTENT REAPING BENEFIT OF ADDITIONAL PASSENGERS FORCED--BECAUSE
PANAM FLIGHTS FULLY BOOKED--TO FLY TO AND FROM U.S. VIA EUROPE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CIVIL AVIATION, AIRLINES, TRANSPORTATION SUBSIDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 02 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LAGOS07155
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740211-0160
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740879/aaaacqbn.tel
Line Count: 142
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A) STATE 79306; B) LAGOS 4191; C) ST, ATE 162608
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2002 by boyleja>; APPROVED <25 FEB 2003 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES
TAGS: ETRN, NI, NIGERIA AIRWAYS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005